



Feldmann, M. (2017). Crisis and opportunity: varieties of capitalism and varieties of crisis responses in Estonia and Slovenia. *European Journal of Industrial Relations*, 23(1), 33-46.  
<https://doi.org/10.1177/0959680116672280>

Peer reviewed version

Link to published version (if available):  
[10.1177/0959680116672280](https://doi.org/10.1177/0959680116672280)

[Link to publication record in Explore Bristol Research](#)  
PDF-document

This is the author accepted manuscript (AAM). The final published version (version of record) is available online via Sage at <http://ejd.sagepub.com/content/early/2016/10/13/0959680116672280>. Please refer to any applicable terms of use of the publisher.

## University of Bristol - Explore Bristol Research

### General rights

This document is made available in accordance with publisher policies. Please cite only the published version using the reference above. Full terms of use are available:  
<http://www.bristol.ac.uk/red/research-policy/pure/user-guides/ebr-terms/>

# CRISIS AND OPPORTUNITY: VARIETIES OF CAPITALISM AND VARIETIES OF CRISIS RESPONSES IN ESTONIA AND SLOVENIA

Magnus Feldmann, University of Bristol

Accepted for publication in the *European Journal of Industrial Relations*

## Abstract:

A growing literature has analysed capitalist institutions in Slovenia and Estonia, two countries that have been described as different varieties of capitalism or even Antipodes within Central and Eastern Europe. Slovenia has been unique in Central and Eastern Europe given highly centralised wage bargaining and the importance of corporatist institutions, notably the tripartite Economic and Social Council. The Slovenian experience could be viewed as an exception to the general pattern of weak unions and illusory corporatism across Central and Eastern Europe. By contrast, Estonia is commonly viewed as a prime example of a free market-oriented economy, in which industrial relations are decentralised and capitalist institutions can be characterised as neoliberal or approximating a liberal market economy. This paper analyses how these distinctive institutional configurations have shaped the two countries' responses to the Great Recession or the Global Economic Crisis beginning in 2007-8. It also explores whether these institutions have remained stable or undergone changes as a result of the crisis. The article also seeks to identify lessons from this experience for the future prospects of corporatism and tripartism in Slovenia, Estonia and also for the revitalisation of trade unions and progressive politics in Central and Eastern Europe more generally.

## Introduction

The global economic crisis beginning in 2008, commonly labelled the 'Great Recession' (Bermeo and Pontusson, 2012), has raised great political and economic challenges to many countries in the world, and there is already a growing literature on the economic policy responses, esp. in Western Europe and North America (see esp. Bermeo and Pontusson, 2012; Kahler and Lake, 2013).

This article contributes to the literature on the crisis in Central and Eastern Europe, a region hit very hard by the global downturn. It focuses on the politics of economic adjustment in the face of the Great Recession and explores the significance of economic institutions and industrial relations in mediating the effects of the crisis. This article revisits two central questions in debates about capitalist diversity and industrial relations in the context of economic crises. First, to what extent do institutions shape crisis responses? Second, do crises undermine existing institutions and lead to institutional change? Many existing studies of the crisis in this region have focused on the causes and determinants of the crisis (e.g., Connolly, 2012). To the extent that the literature has explored the consequences of the crisis and responses to it, such studies have generally tended to focus on general regional trajectories (Åslund, 2010), individual countries (Feldmann, 2014; Åslund and Dombrovskis, 2011 or Raudla, 2013) or sub-regions with similar institutions, such as the Baltic States (Kattel and Raudla, 2013) or the Visegrad countries (Myant, Drahokoupil and Lesay 2013), rather than compare the impact of the crisis across different institutional configurations.

In order to explore the role of institutions and crisis responses this paper focuses on the two countries with the most different sets of economic institutions among the new member states, namely Estonia and Slovenia, commonly described as an emerging liberal and coordinated market economy respectively (Feldmann, 2006; Buchen, 2007), to assess whether pre-existing institutions have shaped crisis responses and whether these institutions have remained stable in the face of the

crisis. The article argues that pre-existing institutions have shaped crisis responses in the two countries to a significant degree, but that the Estonian institutions have displayed greater stability than the Slovenian institutions.

The article is structured as follows. The next section of the article provides a more detailed overview of the core political economy debates about institutions, crises and economic policy and situates this article in relation to those debates by emphasising industrial relations and social policy. The following section discusses capitalist institutions in Central and Eastern Europe and explains the case selection of Estonia and Slovenia in more detail. After that the article analyses the Estonian and Slovenian crisis experience, and the concluding section of the article discusses some further implications and general lessons from this study for the prospects of egalitarian reform of institutions governing labour and work in the region.

## 1. Institutions, crises and economic policy

This article seeks to contribute to the extensive literature on institutions and crises in industrial relations and political economy and to revisit the two key causal linkages analysed in that literature.

The first relationship explored in scholarly debates is the effect of institutions on crisis responses. There is a large literature stressing the importance of institutions as determinants of economic policy during crises. One of the most influential treatments of this topic is Gourevitch's (1986) classic account of a number of economic crises since the second half of the 19th century, which found that institutional arrangements - along with a number of other factors, such as interests, ideas and international factors, had a significant impact on how countries adjusted to crises. The corporatism-

pluralism debate also highlighted that institutions shaped crisis responses during the 1970s in the aftermath of the oil shocks (Crouch, 1983; Lehmbruch and Schmitter, 1982; Molina and Rhodes, 2002). More recently, the Varieties of Capitalism literature also implies that different capitalist systems are likely to respond differently to similar crises, and Hall's (2007) survey of the development of economic policy in Western Europe since the early post-war period demonstrates the central role of pre-existing institutional arrangements.

More generally, much of the political economy literature suggests that institutional differences can cause contrasting reactions to common shocks or common trends, such as the rise of the service economy (Iversen and Wren, 1998; Iversen and Soskice, 2015) or globalisation (Garrett 1998). On the other hand, while recent scholarship has shown that differences between liberal and coordinated market economies may have contributed to the build-up of global imbalances and the global economic crisis (Iversen and Soskice, 2012), there is no strong evidence to suggest that such differences have systematically shaped the variation in crisis responses across the OECD (Pontusson and Raess, 2012).

As there is still considerable debate about whether the countries in Central and Eastern Europe should still be seen as being 'in transition', the economic crisis is a good opportunity to explore not just to what extent institutions have shaped crisis responses in the region, but also whether the institutions as such have been 'strong' enough to survive the crisis (Levitsky and Murillo, 2009). This relates to the other core focus of the existing literature, namely how crises contribute to institutional change. Much of the historical institutionalist literature argues that institutions shape policy-making and outcomes in systematic ways, but that crises may constitute critical junctures during which the institutions themselves are likely to be in flux. At such times the institutions may be renegotiated and changed before a new framework can be established (Capoccia and Kelemen, 2007). Even historical institutionalist studies that are critical of the critical junctures approach

concede that certain situations may be particularly conducive to institutional change, e.g. by empowering institutional entrepreneurs or because of rising tensions in the institutions themselves that may lead to exhaustion (Streeck and Thelen, 2005). Similarly, the literature on economic policy reform highlights the central role of crises as a important trigger of policy reform (Bates and Krueger, 1993; Williamson, 1994). The literature on the recent crisis does not necessarily suggest that such a transformation of institutions has occurred in Western Europe and North America during the Great Recession, at least so far (Crouch, 2011, Bermeo and Pontusson, 2012), but this paper seeks to explore elements of continuity and change in Slovenian and Estonian economic institutions during and after the Great Recession.

Finally, it should be noted that the two causal effects are not necessarily mutually exclusive. It is quite possible that pre-existing institutions shape crisis responses in the short run, but that a longer and more drawn out crisis eventually leads to far-reaching institutional change. For example, Hall (1993) distinguishes between three different kinds of change - first-order change (changes to the settings of policy instruments), second-order change (change of policy instruments) and third-order change (a paradigm shift affecting the terms of policy discourse, perhaps reshaping the aims and principles of policy-making, like the shift from Keynesianism to monetarism in economic policy-making). Hall's analysis shows that the initial responses to the crisis of the 1970s corresponded to first and second-order changes, or what Hall refers to as normal policy-making. Only later, when these changes were seen to be inadequate and not to provide appropriate solutions to the pre-existing economic problems, did more radical third-order change ensue.

## 2. Institutions and the crisis in Central and Eastern Europe: Estonia and Slovenia

The economic crisis constitutes an opportune moment to revisit the debate surrounding institutional diversity in Central and Eastern Europe. There has been extensive debate about how to classify post-

communist capitalism and, if indeed capitalist institutions in the region can be seen to fall into several varieties, scholars have asked how precisely to conceptualise this diversity and whether the institutions in these countries should be seen as a reasonably stable end point of post-communist transition or whether they should be expected to change further, e.g. as a result of deeper integration with the rest of the Europe and the world economy or in the aftermath of shocks and crises. As the current crisis is the biggest economic shock these countries have faced since the collapse of communism early 1990s, it is a good opportunity to explore the extent to which institutions have structured crisis responses and whether the institutions themselves remained stable in the face of the crisis.

In order to facilitate comparisons with other countries and regions, this article draws on the Varieties of Capitalism approach, which has been widely used to study economic institutions in the OECD. The Varieties of Capitalism approach is also a common starting point for many studies of capitalist diversity in Central and Eastern Europe (e.g. Feldmann 2006; Buchen 2007; Nölke and Vliegenhart, 2009). The application of the Varieties of Capitalism framework to Central and Eastern Europe raises specific challenges, notably given that capitalism was only recently established. For example, given the high degree of external dependence on Western European finance and investment, corporate governance arrangements generally differ from the canonical Varieties of Capitalism model (Feldmann, 2013b). Therefore the framework has also been challenged and extended in various ways to capture key features, such as the centrality of foreign direct investment in the Visegrad countries, which is not adequately captured by the standard Varieties of Capitalism typology (Nölke and Vliegenhart, 2009). Other studies have compared different patterns of integration into the world economy (Myant and Drahokoupil, 2012) or integrated Karl Polanyi's insights to explore the role of the state in governing markets, mobilising support and compensating losers of market reform (Bohle and Greskovits, 2012). Nevertheless the core insights of the Varieties of Capitalism framework, notably that economic systems vary with respect to economic institutions

and modes of economic coordination, apply to Central and Eastern Europe as well. If modified in an appropriate way that acknowledges the specificities of emerging post-communist institutions, then the Varieties of Capitalism framework can be a useful starting point for understanding capitalist diversity and key economic outcomes in the region (Feldmann, 2013b).

There is an extensive literature highlighting that Estonia and Slovenia are located at opposite ends of the spectrum of capitalist diversity in Central and Eastern Europe or even Antipodes in the region (Buchen, 2007). Estonia has been characterised as a liberal market economy with decentralised market institutions (Feldmann, 2013b) and a very limited role for social dialogue or wage bargaining (which tends to occur mostly at the firm level). Estonia has also consistently had one of the most open economies, and its state has been described as pursuing a neoliberal version of capitalism with a small welfare state (Bohle and Greskovits, 2012). By contrast, Slovenia has been described as a coordinated market economy (Crowley and Stanojević, 2011), and adopted a more selective approach to global economic integration, where the role of foreign direct investment has been more limited than elsewhere in the region (Bandelj, 2004). Slovenia's state has also been characterised as neocorporatist, and the welfare state is relatively generous by regional standards (Bohle and Greskovits, 2012; Crowley and Stanojević, 2011). By highlighting different ends of the spectrum of capitalist institutions in the region, the comparison of Slovenia and Estonia gives a good sense of the range of contrasting patterns in Central and Eastern Europe.

The differences between the two countries with respect to industrial relations are stark. The most important feature of Slovenian corporatism has been tripartite concertation in the Economic and Social Council, and a number of national agreements between social partners covering effectively the entire labour force have been concluded since 1994. In recent years national bargaining has become less significant, and the sectoral level has instead become the most important bargaining



level in Slovenia (Feldmann, 2014). As shown in Table 1, the coverage rate of collective agreements remains very high (92% in 2010). There is also functional representation in the second chamber of the Slovenian parliament. In addition, the consultative nature of the political system also contains direct democratic elements, notably provisions for referenda that can be initiated by social partners. Therefore Slovenia is the main exception to the common view that Central and Eastern Europe is characterised by 'illusory corporatism', whereas Estonia comes closer to the regional norm of fragmented industrial relations (Ost, 2000).

By contrast, as Table 1 demonstrates, Estonia has decentralised industrial relations, incl. the lowest unionisation rate amongst the new member states and relatively low collective bargaining coverage. As in most of Central and Eastern Europe, the company level is the primary bargaining level in Estonia, with the transport and energy sectors being the most successful examples of social dialogue and collective agreements at the sectoral level (Espenberg and Vahaste, 2012: 32-3). In addition, there have also been a few social pacts at the national level, usually when the Social Democrats (until 2004 known as the Moderates) have been part of the government (Vare and Taliga, 2002).

Industrial Relations in the new EU member states in Central and Eastern Europe, 2010

	Unionisation	Collective bargaining coverage
Bulgaria	19.8 (2009)	18
Czech Republic	17.3 (2009)	47.1
Estonia	7.7	25
Hungary	16.8 (2008)	35.9
Latvia	14.8 (2008)	25
Lithuania	10	13

Poland	14.1	28.9
Romania	32.8 (2008)	70 (2008)
Slovakia	16.9	35 (2011)
Slovenia	26.3	92

Source: Visser (2013)

Therefore the comparison of Estonia and Slovenia makes it possible to examine some of the most-different institutional arrangements in Central and Eastern Europe. Since both countries were severely affected by the crisis, this is also a very good setting to explore the significance and resilience of these institutions in the face of the crisis.

### 3. The crisis in Slovenia

Slovenia has stood out from the rest of the Central and East European transition countries given its gradual and negotiated transition to capitalism and a relatively generous welfare state, at least by East Central European standards. As noted above, centralised industrial relations and notably peak level national bargaining in the Economic and Social Council have played an integral role in the distinctive and consensual path to the market adopted by Slovenia (Stanojević, 2012; Feldmann, 2014). After many years of steady growth Slovenia was hit very hard by the global economic crisis. After a sharp GDP contraction of -8% in 2009, and moderate growth of 1.4% in 2010 and 0.6% in 2011, there were further contractions of -2.6% in 2012 and -1% 2013. In other words, the Slovenian crisis has been prolonged, and in 2013 the country was frequently referred to as the 'next Cyprus' (Thorpe 2013), i.e. a small eurozone country in need of an international bailout, before growth resumed in 2014 and reached 2.6%.

To what extent has the Slovenian crisis response been shaped by the country's distinctive institutions? On the one hand, and consistent with its CME-type institutions, negotiations, and managed adjustment as well as burden-sharing have played a much more significant role here than elsewhere in Central and Eastern Europe. For example, in February 2009 a €100-120 million cutback in public sector spending was based on a negotiated pay deal with employers and union confederations. Another distinctive feature of the Slovenian response to the crisis was the Law on Partial Refund of Pay Compensation adopted in May 2009. This is essentially a kind of waiting for work scheme, under which employees receive 85% of their pay and devote 20% of their time to education and training. Compared to compulsory redundancies of the kind experienced elsewhere in the region, this is a more egalitarian response that put a greater emphasis on burden-sharing and job protection (Feldmann 2014: 81). There have also been a few other agreements at various points during the crisis. For example, on 20 May 2013 most public sector unions (24 out of 34 Slovenian public sector unions) and the government reached an agreement about wage cuts to avert the danger of a bailout (Skledar 2014). In addition, the minimum wage has remained quite high, which has also contributed to attenuating the distributive consequences of the crisis and containing increases in inequality.

On the other hand, it should be noted that there has not been any comprehensive negotiated crisis response in the form of a comprehensive social pact or an ambitious corporatist agreement, which may seem somewhat surprising given that tripartite negotiations in the Economic and Social Council were established in 1994 and have been viewed as highly institutionalised. Attempts to reach a comprehensive agreement after the last one ended in 2009 were not successful until February 2015, but this agreement was not signed by the Slovenian Chamber of Commerce and Industry (GZS), the dominant employers' organisation in Slovenia since the early 1990s (Mrčela 2015). There have been considerable difficulties associated with reaching agreement on pension reform during the crisis as well (Guardiancich 2013). It should also be noted that the economic policy options have been

constrained by Slovenia's EMU membership, which meant that a devaluation could not be used to adjust to the crisis and that Slovenia has faced additional scrutiny of its fiscal and economic policies by the European Commission as well.

In addition to the lack of a comprehensive social pact or centralised agreement and the associated weakening of corporatism in Slovenia there is also some further evidence of institutional change, which casts some doubt on the future of some of the most exceptional features of the Slovenian model. In light of the concerns about a possible bailout and the sense that previous governments had not done enough to avert a possible crisis, the Slovenian government under Prime Minister Alenka Bratušek (2013-4) agreed a variety of reforms as a part of a more far-reaching programme to combat the crisis. The austerity policies have also involved some centralisation of policy-making (Pevcin, 2014). These measures included tax increases, notably a change in VAT from 20% to 22%, which was later replaced by other measures, such as increases in excise duties (Novak, 2014) and the creation of a bad bank to deal with the high percentage of non-performing loans in the Slovenian banking system. In addition, there are plans to privatise 15 state-owned firms, incl. Adria Airways and parts of the banking sector, some of which have already materialised. It is possible that these reforms will reshape the economy and perhaps contribute to further change in the Slovenian economy, notably by increasing the ownership stakes of foreign companies, which may be less committed to corporatist institutions.

There are several reasons for these institutional changes. First, given the prolonged crisis and lingering fears of an international bailout, increasingly radical solutions were widely perceived as inevitable. This pushed governments to seek quick solutions, often without consulting with the social partners. As in other countries (most notably in Greece) here has been considerable pressure from both the EU and financial markets (cf. Bermeo and Pontusson, 2012 on the external dimension of policy responses elsewhere).

The crisis has also led to greater domestic challenges to the Slovenian model. First, the crisis has strengthened the perception that the financial sector ought to be reformed. Notably, the combination of significant public ownership combined with extensive and risky foreign borrowing in the banking sector created particular vulnerabilities in the run-up to the crisis (Epstein, 2013). These problems have also led to heightened criticism of the Slovenian model as such, as critics have suggested that the crisis reflects the weaknesses of partial and gradual marketisation and that further market reforms are needed. Some changes were already underway prior to the crisis. In particular, there had been some erosion of centralised wage bargaining at the national level with the sectoral level gaining in importance. This was partly related to changes in the structure of Slovenian business (related to internationalisation, the rise of small and new businesses and economic liberalisation under the Janša government in 2004-2008 - see also Stanojević, 2012), with various smaller and newer businesses in particular pushing for decentralisation, as the national agreements were seen to benefit larger privatised companies disproportionately. In that sense the crisis has strengthened the alliance for further change - not least since some of the key political supporters of tripartism have been weakened, including the Liberal Democratic Party (LDS) that was in government in the period 1992-2004 (Feldmann, 2014). While the strengthening of the sectoral level does not necessarily imply any erosion of the coordinated market economy model, as the centrality of sectoral bargaining in countries like Germany shows, there has been growing dissatisfaction with some aspects of the Slovenian model over the last decade, with conservative parties arguing for further market liberalisation and reforms.

Secondly, to some extent the economic crisis has also turned into a crisis of social partnership and consensus politics. On the one hand, governments have increasingly sought to adopt reforms and manage the crisis on a unilateral basis, partly as they have felt that resolute action would be required and feared that the social partners might not support it. However, in the absence of a

comprehensive and far-reaching social pact to address the crisis and given the diminishing influence of the Economic and Social Council, social actors have chosen protests and contestation of key policies. This has included strike action, such as the high-profile strike in the port of Koper in 2011 (STA, 2011) and the general warning strike on 12 March 2008 involving over 145,000 workers, the biggest strike in Slovenia during the independence period, which was co-organised by six union confederations and which forced the employers back to the negotiating table (Skledar 2008). It has also entailed initiating referenda on government policies. The government's unilateral approach has been counterproductive, as several government initiatives, notably on pension reform and the introduction of mini-jobs, were voted down in successive referenda. This illustrates some of the dangers of unilateralism by governments in a country with corporatist traditions, active trade unions and civil society actors as well as provisions for binding referenda (Feldmann 2014; Stanojević and Klarič 2013).

Popular dissatisfaction has also manifested itself in the instability of the party system in recent years, notably the rise and fall of several new leader-centred parties associated with specific political entrepreneurs, such as Zoran Janković's Positive Slovenia or Gregor Virant's Civic List (both of which were very successful in the 2011 election, but failed to gain any parliamentary representation at the 2014 election), reflects growing discontent with the political elite and its approach to the crisis. After the 2014 election, the Party of Miro Cerar (SMC), which had been founded just a few months before (the party was renamed the Party of the Moderate Centre in 2015, whilst preserving the original acronym), became the largest party in the Slovenian parliament and the dominant party in the new government as well, with Miro Cerar himself assuming the position of Prime Minister. While the new government has continued most of the earlier reforms, growth resumed in 2014, and the external pressure on Slovenia has subsided somewhat. In the summer of 2015 the international media began writing about the success of the Slovenian reforms and how the country managed to recover from the crisis (MacDowall, 2015). It remains to be seen whether the Party of the Moderate Centre will

turn out to be a more permanent part of the political system than the other new parties that emerged in recent years.

The big question remains whether the recovery will be associated with a revival of social dialogue and tripartism in Slovenia. As noted above, a new tripartite agreement (albeit not signed by the GZS) was reached in February 2015, though it is too early to tell how significant this is. If there is further privatisation and internationalisation, then there may be a further weakening of the coalition in favour of social dialogue (Feldmann, 2014; Stanojević, 2014). However, the significance of protests and resistance against many reform initiatives also indicates that many Slovenes are still committed to a fairly egalitarian social model and that liberalisation attempts may not succeed.

#### 4. The crisis in Estonia

Estonia, along with the other two Baltic States Latvia and Lithuania, experienced a very sharp contraction in 2008-9. The Baltic States and Ukraine were hit hardest by the economic crisis in Europe during this period in terms of growth contractions. Estonian GDP fell by 3.7% in 2008 and 14.3% in 2009, but this was followed by a recovery from 2010 onwards. Growth rates have been among the highest in Europe since that time.

Although Estonia was not a member of the euro zone when the crisis hit, a devaluation was not considered. Euro adoption was a strategic priority of the Estonian government, and maintaining the fixed exchange rate under the currency board and satisfying the Maastricht convergence criteria were key goals shaping Estonian policy making despite the sharp downturn. Since a devaluation was ruled out and that the Maastricht criteria also put constraints on the use of countercyclical fiscal policy, the Estonian crisis response focused on restoring competitiveness by bringing about an

internal devaluation (Feldmann, 2013a). Despite the great fall in GDP and rapidly increasing unemployment in 2009, Estonia eschewed standard counter-cyclical adjustment policies and instead opted for dramatic cutbacks in public spending and wages, which constituted one of the most radical austerity plans in Europe, in effect making bigger cuts in one year than the British coalition government was planning to make over five years (Bohle and Greskovits, 2012: 233-4). According to European Commission estimates discretionary fiscal consolidation in 2009 amounted to over 9% of GDP in Estonia (Raudla, 2013: 32). Fiscal consolidation was implemented in three phases, involving two supplementary budgets as well as a variety of one-off measures in the autumn of 2009, and it included a variety of salary and benefit cuts as well as increases in VAT (from 18 to 20%), unemployment insurance contributions and excise duties on fuel (for a more detailed overview, see Feldmann, 2013a: 359; Raudla and Kattel, 2011: 170–172).

In terms of process, and unlike in Slovenia, there was no significant role for negotiated adjustment. Indeed the government reneged on various commitments made in a national social pact prior to the crisis, such as planned increases in unemployment benefits and changes to eligibility criteria for unemployment insurance. These changes were introduced without consulting the social partners or inviting them to new negotiations (Espenberg and Vahaste, 2012: 28-9). Changes in public spending and taxes were implemented unilaterally by the government, and similar adjustment mechanisms operated at the firm level, incl. pay cuts and layoffs. There were no attempts by the government to intervene in a more activist fashion, and bank bailouts were not on the agenda, largely given that the main banks were foreign-owned and likely to be supported by the Swedish central bank, if necessary. This could be said to represent considerable policy continuity, in light of Estonia's emerging liberal market economy (Feldmann, 2006) and the long-standing emphasis on market-based economic policy (Kattel and Raudla, 2013). In addition to decentralised industrial relations and weakly institutionalised social dialogue at the national level, this was also enhanced by relatively



flexible and decentralised markets (Kuokštis, 2011) and also highly centralised budgetary procedures (Raudla, 2013).

Although the recession was sharp and the policy responses could be seen as draconian, this did not lead to any significant protests or popular backlash compared to other countries in the region (Beissinger and Sasse 2014). Indeed levels of trust in the government were comparatively high during the crisis (Kuokštis, 2015). There were limited protests and contestation, partly given that high levels of private borrowing in foreign currency and the associated fear of a devaluation were perceived to strengthen the economic case for maintaining the currency board and also given the strong political emphasis on euro adoption to anchor Estonia in Western Europe (Feldmann, 2013a: 363-5). It should be noted that the two centre-right parties in government, the Reform Party and the Union of Fatherland and Res Publica, which were most closely associated with the austerity policies even increased their representation in parliament at the 2011 election. Centre-left parties, such as the Social Democrats, one of the three parties in government during the period 2007-2009 and the party of which the then Minister of Finance Ivari Padar was the leader, did not seriously contest the general approach of internal devaluation and fiscal consolidation, although they did question the methods of bringing about this consolidation. The centre-left would have favoured further tax increases in addition to spending cuts in order to bring about fiscal consolidation in a more egalitarian way.

There is no real evidence of institutional change, as the fundamental institutions of the Estonian economy are unchanged. As the Estonian economy began recovering in 2010 and Estonia was invited to adopt the euro in January 2011, many Estonian observers feel that these outcomes have validated the economic policies adopted by the government. There have even been attempts by Estonian politicians to promote the country's crisis response to the rest of Europe as an optimal solution to the crisis, though this has been controversial and not entirely successful (Lindstrom

2015). In terms of industrial relations, there have been a number of challenges. The number of collective agreements concluded each year fell dramatically during the Great Recession from 97 in 2007 to 54 in 2010 (Espenberg and Vahaste 2012: 44). An important controversy occurred at the end of 2011 when the government wanted to centralise decisions on the funds used by the Employment Service (*Töötukassa*) and the Health Insurance Fund (*Haigekassa*), and to make any reserves available to the national budget. The social partners viewed this as an encroachment on the financial autonomy of these bodies and on tripartism more generally, and they have also criticised the government's unwillingness to reduce unemployment insurance contributions when the economy started to recover (Espenberg and Vahaste, 2012: 30). The economic recovery also triggered the biggest strike since Estonia regained independence, namely the teachers' strike on 7-9 March 2012, in which over 17,000 employees in the education sector participated. The strike action taken in the educational sector also prompted sizeable sympathy strikes, incl. a strike organised by the national Trade Union confederation (EAKL, 2012), which has also prompted intense debate in Estonia about the status and legality of sympathy strikes, incl. under what conditions they should be viewed as appropriate (for more detail, see Espenberg and Vahaste 2012: 38-43). There was a strong perception among teachers that they had made considerable sacrifices during the Great Recession and that teacher pay in Estonia was far too low. This has met with considerable understanding in large parts of the population, and the government approved pay increases from 1 January 2013 (Teder 2013). In addition, while the traditionally market liberal Reform Party has provided the Prime Ministers of all Estonian governments since 2005, the increasing popularity of the Social Democrats in opinion polls was one of the reasons why the Reform Party, traditionally committed to free market policies, chose to form a new coalition government with the Social Democrats in 2014. The gradual strengthening of the Social Democrats along with the continued strength of the Centre Party (the first choice of most Russian voters, which also enjoys some support esp. among older and low income Estonian voters) and the rise of new protest parties (the far-right Estonian Conservative

People's Party and the anti-establishment centre-right Free Party) in the election of 2015 are also indications that there is some demand for change in Estonia.

Given that the Estonian economy has recovered and that Estonia has the lowest level of debt to GDP in the entire EU (Feldmann 2013a), Estonia may have more scope for responding to welfare demands than countries that are still facing a deep economic crisis (cf. Rhodes and Keune, 2006). As some of the idiosyncratic factors, such as the strategic foreign policy objectives associated with EMU accession as part of the 'return to Europe', recede from the policy agenda, it is not inconceivable that other groups may eventually follow in the footsteps of the teachers and demand a more egalitarian distribution of the fruits of economic growth. Much will also depend on the ability of the Estonian trade unions and their political allies, such as the Social Democrats (and perhaps the Centre Party too), effectively to channel such demands.

## 5. Conclusion

This article has examined and compared the Great Recession in Slovenia and Estonia and demonstrated that pre-existing institutions have shaped crisis responses, notably by affecting both the process and distributional consequences of adjustment to the crisis. It has also analysed the effect of the crisis on the institutions themselves and found that there has been substantial continuity in Estonia, whereas there has been more institutional change in Slovenia. Estonia's embrace of market-based adjustment and the priority assigned to maintaining the currency board even in the face of a deep recession corresponds to the economic policy regime that the country had put in place in the 1990s (Feldmann 2013a). Another key reason for the relatively high degree of continuity is that the recession came to an end relatively quickly. As growth resumed as early as 2010, and Estonia was invited to adopt the euro at the beginning of 2011, leading politicians felt vindicated. The two centre-right parties in government were re-elected with a stronger mandate in

2011. This outcome was hailed by the government as a testimony to Estonia's success, and leading politicians even sought to advocate the adoption of similar policies elsewhere in Europe, admittedly with questionable success (Lindstrom 2015). In any case, despite the hardship caused by the deep contraction in 2008-9, the rapid recovery ensured that there was not a strong imperative for institutional and policy change.

By contrast, the lessons from the Slovenian case are mixed. On the one hand, the Slovenian corporatist institutions and norms have ensured that the country's initial response to the Great Recession was more moderate and gradual and that the distributive consequences of the policies adopted have been more egalitarian. On the other hand, it also illustrates that crises may lead to institutional change, esp. if there is a prolonged crisis and if the crisis strengthens pre-existing coalitions in favour of change. Such groups may be empowered by the crisis, as they can blame pre-existing institutions for the problem the country faces. External actors, such as the European Commission and international financial markets, can also reinforce such pressures, by advocating resolute action to get the deficit under control. This has contributed to a weakening of Slovenian corporatist institutions and also to other potentially far-reaching economic reforms (Feldmann, 2014; Stanojević, 2012).

However, it may still be too early to tell what the long-run consequences of the crisis are. As this article has demonstrated, there has been substantial resistance to many of the changes in Slovenia, which has manifested itself in referenda (where government initiatives have been voted down), strikes and voters' willingness to vote out established and incumbent parties from parliament. By comparative standards, unionisation and the coverage of collective agreements remain high in Slovenia, and there is a corporatist tradition that both social partners and politicians can tap into. If some of the challenges related to the financial sector (Markovic-Hribernik and Tomec 2015) - which tripartism by itself may be ill-equipped to resolve - can be addressed and Slovenia is able to return to

a healthy growth trajectory that is more dependent on exports and less on financialisation, then maybe corporatist institutions may once again play a more significant role. If governments face considerable problem loads, they may once again see the appeal of seeking negotiated and consensual solutions in the form of social pacts that will not be challenged in the way many of the anti-crisis policies have been. Despite considerable challenges, it is likely that the prospects for egalitarian capitalism remain better in Slovenia than elsewhere in the region.

However, there may be some scope for more egalitarian reforms and perhaps a greater role for social dialogue even in Estonia. Admittedly, there are considerable obstacles, such as the low unionisation rate and the considerable strength of free market ideas in the country. The increasing support for the Social Democrats along with the continued strength of the Centre Party and the rise of new protest parties in the election of 2015 suggest that there is some demand for change in Estonia - both with respect to political processes and policies. Whether such political developments will also trigger more sustained protests, akin to the big teachers' strike, and revitalisation of tripartism and progressive politics, remains to be seen. Much will depend on how durable the economic recovery and growth turn out to be and how skilfully the Social Democrats and civil society groups mobilise key segments of society. Such mobilisation may strengthen the demand for a more egalitarian distribution of the rewards of economic growth and increasing prosperity in Estonia. Now that the country has emerged from the crisis, there may be more scope to address such concerns.

The experience of these countries illustrates several challenges for industrial relations in Central and Eastern Europe beyond the obvious long-term problems of declining union membership and limited working class mobilisation, which remain important across the region. While Slovenia and Estonia are not entirely typical of the region as a whole, given that they are at two ends of the spectrum of capitalist and industrial relations systems, several lessons can be drawn from this analysis. First, their experiences illustrate how pre-existing institutions have influenced and shaped crisis responses. In

that sense the institutional arrangements that have developed since the early 1990s are sufficiently well established to shape crisis responses. Second, Slovenia and Estonia also highlight many general pressures and opportunities facing the region as a whole. High levels of foreign borrowing have created specific vulnerabilities, which are associated with severe constraints and pressures during periods of crisis when debt servicing can be problematic in the face of adverse financial market developments. For countries in the Eurozone or aspiring to join it, many standard macroeconomic adjustment mechanisms are not available, given that devaluations are ruled out and given the constraints on activist fiscal policy. Thirdly, beyond related pressures for fiscal consolidation and even austerity, an economic crisis has complex effects on industrial relations and social policy. The Slovenian experience shows some benefits of negotiated adjustment, even though it is not clear whether the initial response was adequate to stave off the crisis. Yet it also illustrates how governments may seek to exploit crises to act unilaterally and strengthen trends towards liberalisation and decentralisation of industrial relations. A longer and more drawn out crisis may make countries more vulnerable to both external and internal liberalisation pressures. By contrast, while social dialogue played a very limited role during the crisis in Estonia, the relatively rapid return to growth has created new opportunities for labour mobilisation, not least given the sacrifices by much of the population during the crisis. These cases suggest that the effects of the economic crisis have been complex: it has promoted market liberalisation and austerity policies and weakened tripartism as well, but also strengthened resistance against government unilateralism and policies leading to adverse distributional outcomes. While the relative impact of these trends is likely to vary across the region and be conditioned by pre-existing institutions (Glassner, 2013), with most countries in the region being closer to Estonia than Slovenia in terms of industrial relations, this implies that that the crisis may generate some new opportunities and incentives for worker mobilisation to strengthen social dialogue and also to bring about more inclusive and egalitarian policies.

## Bibliography

Åslund A (2010) *The Last Shall Be The First: The East European Financial Crisis*. Washington DC:

Peterson Institute for International Economics

Åslund A and Dombrovskis V (2011) *How Latvia Came Through the Financial Crisis*. Washington, DC:

Peterson Institute for International Economics

Bandelj N (2004) Negotiating Global, Regional, and National Forces: Foreign Investment in Slovenia.

*East European Politics and Societies* 18 (3): 455–480.

Bates RH and Krueger AO (eds) (1993) *Political and Economic Interactions in Economic Policy Reform*.

Oxford: Blackwell.

Beissinger M and Sasse G (2014) An End to "Patience"? The Great Recession and Economic Protest in

Eastern Europe. In Bermeo N and Bartels L (eds) *Mass Politics in Tough Times: Opinions, Votes and*

*Protest in the Great Recession*. Oxford: Oxford University Press

Bermeo N and Pontusson J (2012) *Coping with Crisis: Government Reactions to the Great Recession*.

New York: Russell Sage

Bohle D and Greskovits B (2012) *Capitalist Diversity on Europe's Periphery*. Ithaca: Cornell University

Press.

Buchen C (2007) Estonia and Slovenia as Antipodes, in Lane D and Myant M (eds) *Varieties of*

*Capitalism in Post-Communist Countries*. New York, Palgrave Macmillan

Cankar SS and Petkovšek V (2014) Fiscal Instability in Slovenia during the Economic Crisis. *Zagreb*

*International Review of Economics & Business* 17 (1): 95-105

Capoccia G and Kelemen RD (2007) The Study of Critical Junctures: Theory, Narrative, and

Counterfactuals in Historical Institutionalism. *World Politics*, 59 (3): 341-369.

Connolly R (2012) The Determinants of the Economic Crisis in Post-Socialist Europe. *Europe-Asia Studies* 64 (1): 35-67.

Crouch C. (1983) Pluralism and the New Corporatism: A Rejoinder. *Political Studies*, 31: 452–60.

Crouch C (2011) *The Strange Non-Death of Neoliberalism*. Cambridge: Polity Press.

Crowley S and Stanojević M. (2011), Varieties of Capitalism, Power Resources, and Historical Legacies: Explaining the Slovenian Exception. *Politics and Society* 39: 268–95

EAKL (Estonian Trade Union Confederation) (2012) *EAKL: solidaarsus pedagoogidega on siiras*. EAKL Press Release. Available at: <http://www.eakl.ee/?pid=75&nid=463&lang=5> (Accessed 31 July 2015)

Epstein RA (2013) Central and East European Bank Responses to the Financial ‘Crisis’: Do Domestic Banks Perform Better in a Crisis than their Foreign-Owned Counterparts? *Europe-Asia Studies* 65(3): 528-547.

Espenberg K and Vahaste S (2012) *Majanduskriisi mõju kollektiivsete töösuhete süsteemile Eestis*. Tartu: RAKE.

Feldmann M (2006) Emerging Varieties of Capitalism in Transition Countries: Industrial Relations and Wage Bargaining in Estonia and Slovenia. *Comparative Political Studies* 39 (7): 829 - 854.

Feldmann M (2013a) From the ruble zone to the euro zone: the political economy of Estonian macroeconomic policy. *Post-Soviet Affairs*, 29(4): 354-370.

Feldmann M (2013b) Varieties of capitalism and the Estonian economy: Institutions, growth and crisis in a liberal market economy. *Communist and Post-Communist Studies* 46(4): 493–501.

Feldmann M (2014) Coalitions and Corporatism: The Slovenian Political Economy and the Crisis. *Government and Opposition* 49(1): 70 - 91.



Glassner V (2013) Central and eastern European industrial relations in the crisis: national divergence and path-dependent change *Transfer* 19(2): 155-169.

Guardiancich I (2013) *Pension Reforms in Central, Eastern, and Southeastern Europe: From Post-Socialist Transition to the Global Financial Crisis*. London: Routledge

Hall PA (1993) Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain. *Comparative Politics* 25 (3): 275-296.

Hall PA (2007) The Evolution of Varieties of Capitalism in Europe. In Hancké B, Rhodes M and Thatcher M (eds) *Beyond Varieties of Capitalism* Oxford: Oxford University Press.

Iversen T and Soskice D (2012) Modern Capitalism and the Advanced Nation State: Understanding the Causes of the Crisis. In Bermeo N and Pontusson J (eds.), *Coping with Crisis: Government Reactions to the Great Recession*. New York: Russell Sage

Kahler M and Lake D (2013) *Politics in the New Hard Times: The Great Recession in Comparative Perspective*. Ithaca: Cornell University Press.

Kattel R and Raudla R (2013) The Baltic Republics and the Crisis of 2008–2011. *Europe-Asia Studies* 65 (3): 426-449.

Kuokštis, V (2011) What Type of Capitalism Do the Baltic Countries Belong to?. *Employment and Economy in Central and Eastern Europe* 1/2011, Available at: [www.emecon.eu/Kuokstis](http://www.emecon.eu/Kuokstis).

Kuokštis, V (2015) Cooperating Estonians and “exiting” Lithuanians: trust in times of crisis. *Post-Soviet Affairs*, 31 (6): 557-575.

Lehmbruch G and Schmitter P (eds) (1982) *Patterns of Corporatist Policy Making*. London: SAGE.

Levitsky S and Murillo MV (2009) Variation in Institutional Strength. *Annual Review of Political Science* 12: 115-133.

Lindstrom N (2015) Wither Diversity of Post-Socialist Welfare Capitalist Cultures? Crisis and Change in Estonia and Slovenia. *European Journal of Sociology*. 56 (1): 119-139.

MacDowall J (2015) How Slovenia turned itself around. *Politico*. 15 July. Available at:  
<http://www.politico.eu/article/slovenia-turns-itself-around-greece-bailout-bank-crisis/>

Mahoney J and Thelen K (2010) A Theory of Gradual Institutional Change. In Mahoney J and Thelen K (eds) *Explaining Institutional Change: Ambiguity, Agency and Power*. Cambridge: Cambridge University Press.

Molina, O. and Rhodes, M. (2002), 'Corporatism: The Past, Present, and Future of a Concept', *Annual Review of Political Science*, 5: 305–31.

Mrčela AK (2015) Slovenia: New social agreement 2015–2016. In EurWork. Available at:  
<https://www.eurofound.europa.eu/observatories/eurwork/articles/industrial-relations/slovenia-new-social-agreement-2015-2016> (Accessed on 29 July 2015)

Myant M and Drahokoupil J (2012) International Integration, Varieties of Capitalism and Resilience to Crisis in Transition Economies. *Europe-Asia Studies* 64(1): 1-33.

Myant M, Drahokoupil J and Lesay I (2013) Political Economy of Crisis Management in East-Central European Countries. *Europe-Asia Studies*, 65(3), 383–410.

Novak, M (2014) Slovenian PM to call confidence vote, scraps VAT hike. Reuters (7 April). Available at: <http://www.reuters.com/article/2014/04/07/us-slovenia-government-idUSBREA360EX20140407>

Nölke A and Vliegenthart A (2009) Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe. *World Politics* 61 (4 ): 670-702.

Ost D (2000), Illusory Corporatism in Eastern Europe: Neoliberal Tripartism and Postcommunist Class Identities. *Politics and Society* 28: 503–30.

Pevcin P (2014) Austerity and Cutback Management in the Public Sector: A Case Study for Slovenia. *Administrative Culture* 15 (1): 80-99.

Pontusson J and Raess D (2012) How (and Why) Is This Time Different? The Politics of Economic Crisis in Western Europe and the United States. *Annual Review of Political Science* 15: 13-33.

Raudla R (2013) Fiscal Retrenchment in Estonia During The Financial Crisis: The Role of Institutional Factors. *Public Administration* 91 (1): 32–50

Raudla R and Kattel R (2011) Why Did Estonia Choose Fiscal Retrenchment after the 2008 Crisis? *Journal of Public Policy* 31 (2): 163–186.

Rhodes M and Keune M (2006) EMU and Welfare State Adjustment in Central and Eastern Europe. In Dyson K (ed) *Enlarging the Euro Area: External Empowerment and Domestic Transformation in East Central Europe*. Oxford: Oxford University Press.

Skledar Š (2008) General warning strike goes ahead in private sector In EurWork. Available at: <http://www.eurofound.europa.eu/observatories/eurwork/articles/general-warning-strike-goes-ahead-in-private-sector>

Skledar Š (2014) Most public sector unions back pay cuts. In EurWork. Available at: <http://www.eurofound.europa.eu/observatories/eurwork/articles/industrial-relations-working-conditions/most-public-sector-unions-back-pay-cuts>

STA (2011) Negotiators in Seaport Strike Near Positions. The Slovenia Times (2 August). Available at: <http://www.sloveniatimes.com/no-mercy-for-the-crane-operators-on-strike> (Accessed on 31 July 2015).

Stanojević, M. (2012), 'The Rise and Decline of Slovenian Corporatism: Local and European Factors', *Europe–Asia Studies*, 64: 857–877.

Stanojević M (2014) Conditions for a neoliberal turn: The cases of Hungary and Slovenia. *European Journal of Industrial Relations* 20 (2): 97-112.

Stanojević, Miroslav and Klarič, Matej, 2013. "The Impact of Socio-Economic Shocks on Social Dialogue in Slovenia", *Transfer*, 19: 217-226.

Streeck W and Thelen K (2005) Introduction: Institutional change in advanced political economies. In Streeck W and Thelen K (eds) *Beyond Continuity: Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press.

Teder M. (2013) Valitsus kinnitas õpetajate uued miinimumpalgad. *Postimees* (3 January 2013). Available at: <http://www.postimees.ee/1091352/valitsus-kinnitas-opetajate-uued-miinimumpalgad> (Accessed on 31 July 2015)

Thorpe N (2013) Slovenia seeks to dismiss 'another Cyprus hysteria'. BBC News (4 April). Available at: <http://www.bbc.co.uk/news/world-europe-22025555>.

Visser J (2013) *ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2012*. Amsterdam: Amsterdam Institute for Advanced Labour Studies (AIAS). Available at: <http://www.uva-aias.net/208>

Williamson J (ed) (1994). *The Political Economy of Policy Reform*. Washington, DC: Institute for International Economics